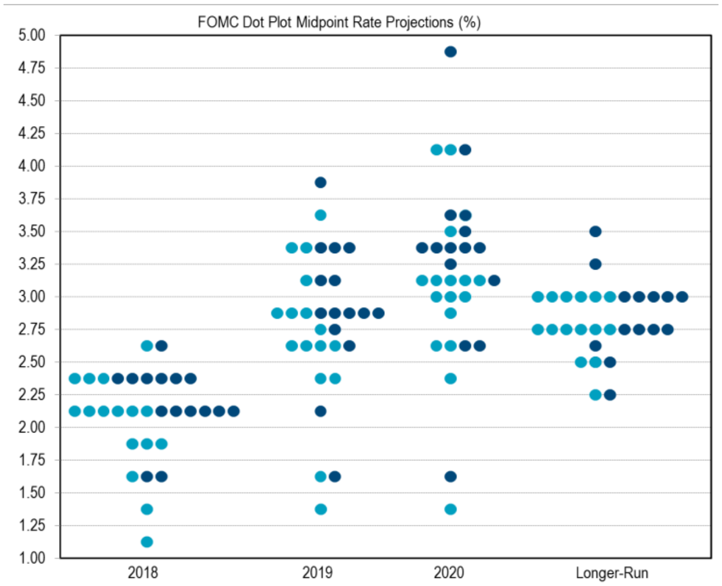
Lindsey M. Piegza, Ph.D.
Chief Economist
(312) 454-3873
piegzal@stifel.com

The Changing Face of the Fed

Economic Data Calendar			Prior	Economist Estimates High	Low	Median	*Stifel*
Monday	*23-Apr*	Chicago Fed Nat Activity Index - *Mar*	0.88	0.50	0.21	0.25	**0.25**
		Existing Home Sales - *Mar*	5.54m	5.60m	5.39m	5.55m	**5.51m**
		Existing Home Sales MoM - *Mar*	3.0%	1.1%	-2.7%	0.2%	**-0.5%**
Tuesday	*24-Apr*	FHFA House Price Index MoM - *Feb*	0.8%	1.2%	0.4%	0.6%	**0.5%**
		S&P CS 20-City MoM SA - *Feb*	0.75%	0.80%	0.50%	0.60%	**0.50%**
		New Home Sales - *Mar*	618k	650k	600k	630k	**624k**
		New Home Sales MoM - *Mar*	-0.6%	5.2%	-2.9%	1.9%	**1.0%**
		Richmond Fed Manufact. Index - *Apr*	15	20	16	16	**16**
		Conf. Board Consumer Confidence Index - *Apr*	127.7	129.0	123.0	126.0	**125.0**
Wednesday	*25-Apr*						
Thursday	*26-Apr*	Initial Jobless Claims - *Apr 21*	232k	235k	225k	230k	**230k**
		Wholesale Inventories MoM - *Mar P*	1.0%	--	--	--	**0.8%**
		Durable Goods Orders - *Mar P*	3.0%	4.0%	-0.3%	1.1%	**0.8%**
		Durables Ex Transportation - *Mar P*	1.0%	1.0%	0.0%	0.4%	**0.2%**
		Kansas City Fed Manf. Activity Index - *Apr*	17	--	--	--	**15**
Friday	*27-Apr*	GDP Annualized QoQ - *1Q A*	2.9%	2.8%	1.5%	2.0%	**1.5%**
		U. of Mich. Consumer Sentiment Index - *Apr F*	97.8	102	97.2	98.0	**98.0**

Source: Bloomberg, Stifel

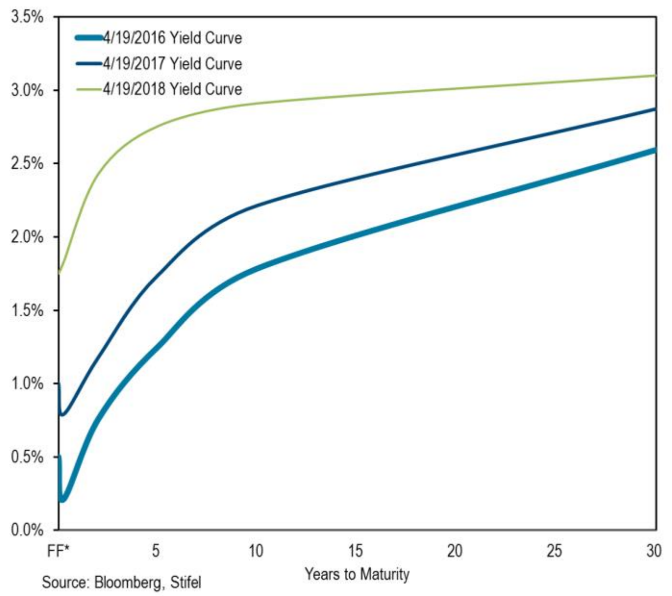
On the surface, the Fed continues to posture support for additional rate hikes in 2018. Furthermore, the appearance of a united front has perpetuated inventors' anticipation of an additional backup in rates; according to *Bloomberg*, the forward curve is now implying a faster pace of hikes than previously forecasted at the start of the year. The pathway for rates, however, is far from certain, as the dispersion of the dots in the plot clearly suggests. There are a number of sizable barriers including modest growth, a flatter curve and a changing composition of Fed leadership that could undermine the Committee's presumed eagerness to increase Fed funds twice more in the remaining eight months of the year.



Source: Federal Reserve

Modest Growth and a Flatter Curve

At this point, nine years into the *"recovery,"* economic conditions are far from robust. By the Committee's own characterization, the economy remains *"moderate,"* creating little sense of urgency to further remove accommodation. Additionally, despite the recent backup in nominal rates, additional upward pressure on the short-end has resulted in an increasingly flatter curve. As of late, the spread between 2yr and 10yr treasury yields fell as low as 41 basis points, the narrowest differential since 2007, before the financial crisis. A further reduction of the 2s10s yield spread threatens a possible curve inversion, a phenomenon investors and Fed officials alike are well aware has historically signaled a weakening longer-term outlook for the U.S. economy and preceded every economic recession in post-WWII history. While hardly a perfect one-for-one exchange, such a minimal gap between short-term and long-term rates affords the Fed limited opportunity to continue to remove accommodation, let alone hike two more times this year without further risking an outright inverted yield curve. As John Williams noted earlier this week at a NABE event, a truly inverted curve *"is a powerful signal of recessions"* that historically has occurred *"when the Fed is in a tightening cycle, and markets lose confidence in the economic outlook."*



Source: Bloomberg, Stifel

Changing Look of the Fed

The composition of the Fed may also prove a restriction to more aggressive policy. Federal Reserve district presidents vote on a rotating annual basis – save the New York Fed president who has a perpetual vote. This year, some of the more hawkish district presidents such as Philadelphia Fed President Patrick Harker and Dallas Fed President Robert Kaplan[1] are rolling off of the voting bloc, replaced by more centrist or dovish leaning presidents such as Atlanta Fed President Raphael Bostic and San Francisco Fed President John Williams.

Additionally, there are four longstanding vacancies on the Federal Reserve's Board of Governors. Such vacancies were left by the departures of Stanley Fischer and Daniel Tarullo last year, and Jeremy Stein and Sarah Bloom Raskin back in 2014. The Trump administration now has the rare opportunity to stack the proverbial Fed deck, so to speak, with like-minded individuals focused on prolonging or perpetuating the U.S. *"recovery."* Thus far, the president has offered nominations to

[1] Dallas Fed President Robert Kaplan is usually thought of as a centrist although he has recently spoken in favor of potentially three rate hikes this year.

three of the vacancies, two as recent as this week. And, unlike district presidents who are nominated by an internal search committee formed by the Reserve Bank's board of directors and then confirmed by the Board of Governors to a five-year term, governors are nominated by the president and confirmed by the Senate to a fourteen-year term! In other words, the administration is choosing individuals who could have a significant influence on policy not only in the near term, but on the outlook for rates for the foreseeable future.

This week we take a look at the potential newest members for the Federal Reserve's Board of Governors.

Federal Reserve Nominees

Marvin Goodfriend was nominated to serve on the Federal Reserve Board of Governors in November 2017. The Senate Banking Committee approved Goodfriend's nomination on February 8th in a 13-12 vote, however, he has yet to be confirmed by the full Senate.

Goodfriend is an economics professor at Carnegie Mellon University where he has taught for the past thirteen years. Prior to his role at Carnegie Mellon, Goodfriend was director of research and policy adviser at the Federal Reserve Bank of Richmond for twelve years beginning in 1993. Earlier, Goodfriend was a visiting economist at the Federal Reserve Board in 1982-1983 and served as a senior staff economist on the Council of Economic Advisors under President Reagan in 1984-1985.

Goodfriend received a B.S. in mathematics from Union College and later earned a Ph.D. in economics from Brown University. To note, while Powell is the first Chair of the Federal Reserve to reign without a Ph.D. in economics since Paul Volcker in the 1980s, Goodfriend is the first Trump appointee to the board to possess such a designation.

Goodfriend has been both vocal and transparent in his views regarding monetary policy. He has voiced continued support for a more rules-based approach to policy adjustments, removing some of the undue uncertainty resulting from individual policy perspectives. Goodfriend has called for Congress to mandate a 2% inflation target into law and for the Fed itself to accept the inflation target to further enhance the central bank's *"credibility."* Speaking before the House Financial Services Committee on March 16, 2017, Goodfriend suggested that the Fed should *"strengthen the legislative oversight process to help enforce the systematic pursuit of monetary policy."* Goodfriend has also suggested that he favors unconventional policy initiatives to combat weakness in the economy, including but not limited to negative interest rate policy.

A more recent nomination, Richard Clarida has been selected to serve as Vice Chairman of the Federal Reserve. The position of Vice Chairman has been vacant since October 13, 2017 when Stanley Fischer stepped down for personal reasons, well before his term was set to expire on June 12, 2018. In the interim, New York Federal Reserve President William Dudley has been acting Vice Chairman.

Richard Clarida is an economist at Columbia University where he has taught since 1988. Currently, Clarida also serves as managing director and global strategic adviser at Pacific Investment Management Company (Pimco). Earlier in his career, Clarida acted as assistant Treasury secretary for economic policy under the Bush administration from 2002-2003 and as a senior economist on President Ronald Reagan's Council of Economic Advisers from 1986-1987.

Richard Clarida received an undergraduate degree from the University of Illinois and later earned a doctorate from Harvard University.

Clarida is considered to have a *"centrist and pragmatic"* view of monetary policy. Clarida is known as a moderate Republican, however, according to the *WSJ*, he is respected by economists on both sides of the political spectrum. Furthermore, according to those familiar, Clarida is thought to provide a welcome balance to Fed leadership given his dual experience in both academia and finance; Clarida is expected to be open to a more *"realistic"* assessment of monetary policy as opposed to a more model-driven policy approach.

Additionally, according to reports, the Obama administration had considered nominating Clarida for a seat on the Federal Reserve Board of Governors in 2011, but instead opted to nominate now Chairman Jerome Powell to fill the position.

Along with Clarida, the administration announced its nomination of Michelle *"Miki"* Bowman earlier this week. Bowman has been nominated to fill the designated community banker seat on the Federal Reserve Board of Governors. A 2014 congressional requirement reserves one seat on the Board of Governors for a community banker; the seat, however, has never been filled.

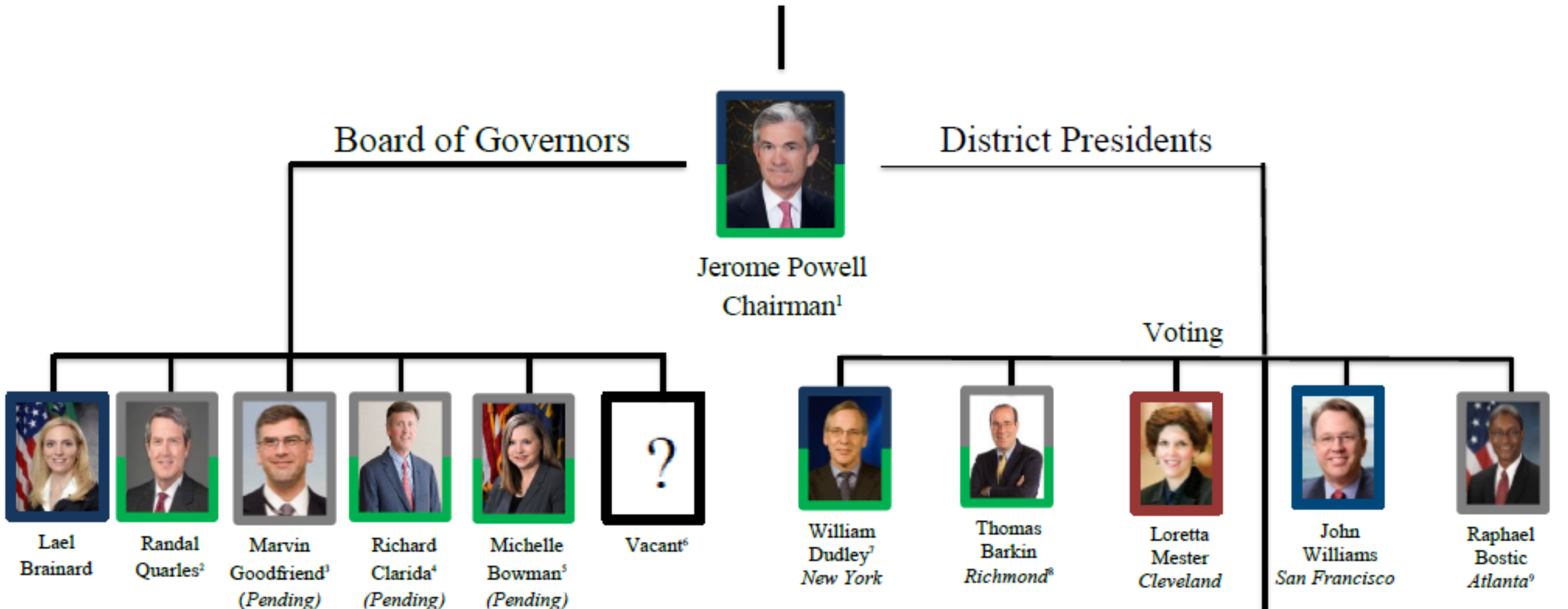
Bowman is currently the State Bank Commissioner for Kansas. Prior to becoming Commissioner in 2017, Bowman served as vice president of Farmers and Drovers Bank in Council Grove, Kansas, an institution owned and run by her family since 1882. Prior to her role at Farmers and Drovers Bank, she ran a government and public affairs consultancy in London from 2004-2009. Before that, Bowman worked for Senator Bob Dole in Washington, DC and served as a counsel to the U.S. House Committee on Transportation and Infrastructure as well as the Committee on Government Reform and Oversight. Earlier, Bowman was appointed by President George W. Bush to serve at the Federal Emergency Management Agency as Director of Congressional and Intergovernmental Affairs, and spent roughly two years working at the Department of Homeland Security as Deputy Assistant Secretary and Policy Advisor to Secretary Tom Ridge.

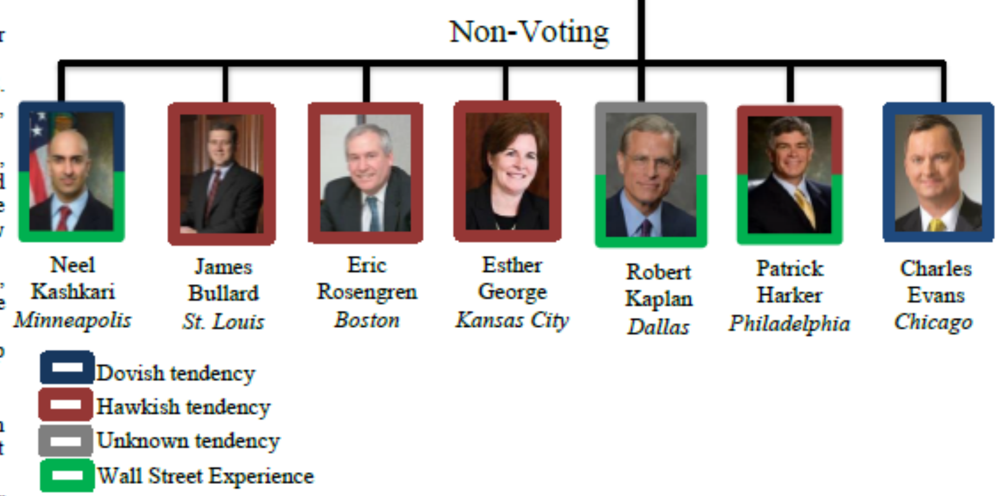
Bowman attended the University of Kansas earning a B.S. in advertising and journalism. She later attended Washburn University School of Law where she earned a Juris Doctorate.

At this point, Bowman's views on monetary policy are mostly unknown. With a background in business and banking, however, Bowman is expected to have a more *"business friendly"* mindset when it comes to regulations and restrictions on financial institutions.

-Lindsey Piegza, Ph.D., Chief Economist

Federal Reserve 2018





[1]Jerome Powell was sworn in as Fed Chairman on February 5, 2018 after Janet Yellen's four-year term ended on February 3, 2018.
[2]Stanley Fischer resigned on October 13, 2017, well-before his term expired on June 12, 2018. Randal Quarles was confirmed by the Senate as Vice Chairman for Supervision on October 5, 2017.
[3]Jermoe Powell served as a member of the Board of Governors from May 25, 2012 – February 5, 2018. He leaves a vacant seat on the Board since being sworn in as Chairman. Marvin Goodfriend was nominated by President Trump to serve on the Boad of Governors in November 2017. The Senate Banking Committee approved his nomination on Feb. 8, 2018. His nomination will now have to be approved by the full Senate.
[4]Daniel Tarullo resigned on April 5, 2017, well-before his term was set to expire on January 31, 2022. Richard Clarida was nominated by President Trump to serve as Fed Vice Chair on the Board of Governors on April 17, 2018.
[5]Jeremy Stein resigned on May 28, 2014. Michelle Bowman was nominated by President Trump to serve on the Board of Governors on April 17, 2018.
[6]Sarah Bloom Raskin resigned on March 13, 2014.
[7]Willian Dudley will retire in mid-2018, about six months prior to the expiration of his term on January 2019. The New York Fed named San Francisco Fed President John Williams as its next president on April 3, 2018.
[8]Thomas Barkin began serving as the new Richmond Fed President on January 1, 2018 after Jeffery Lacker resigned on April 4, 2017.
[9]Raphael Bostic took office on June 5, 2017 after Dennis Lockhart resigned on February 28, 2017.

Glossary

B.S. – Bachelor of Science
FOMC – Federal Open Market Committee
NABE – National Association for Business Economics
WSJ – Wall Street Journal